Jerry E. Abramson
Mayor

26 Member
Metro Council

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Office of Internal Audit

Human Resources

Health Insurance Administration

Audit Report

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March 2006

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LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

March 14, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Audit of Human Resources Health Insurance Administration

Introduction

We have examined the operating records and procedures of health insurance activity administered by the Department of Human Resources. The Benefits division is responsible for the administration of health insurance for all Louisville Metro Government. The primary focus of the audit was the operational and fiscal administration of the activity. This included how the Benefits division processes, records, and monitors the activity. The adequacy of funding for health benefits was not an objective of this review.

Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting

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- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for the health insurance processing activities were reviewed through interviews with key personnel. The focus of the review was the administration of health insurance benefits and related activity. The adequacy of funding for health benefits was not an objective of this review.

The operational and fiscal administration of activity was reviewed through tests of sample data. Sample transactions were chosen from fiscal year 2005 (July 1, 2004 to June 30, 2005). Activity reviewed included internal and external records associated with the invoices processed and paid to the Third Party Administrators (TPA) for services associated with health insurance benefits.

The review included assessing whether activity was processed in compliance with requirements. This included Metro policies, Human Resources departmental policies, and TPA agreements. The procedures for monitoring the activity were also reviewed. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

Opinion

It is our opinion that the overall internal control structure for Benefits' administration and processing of health insurance benefits is inadequate. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Specific problems were noted that indicate the internal control structure could be more effective. Examples of these include the following.

- **Health Insurance Administration.** Member tracking and verification of dependent eligibility was inadequate. This increases the risk that Metro may be incurring inappropriate costs. In addition, support documentation was lacking with regards to internal policies and procedures and third party administrator agreements. The lack of proper support documentation may lead to inconsistencies and inefficiencies with processing, as well as noncompliance with requirements.

- **Health Insurance Processing.** The billings for claims activity and administrative fees are not adequately reconciled for appropriateness. This could result in payments for ineligible members or duplicate transactions. There were also several cases where adjustments (refunds / charges) associated with health benefits were not processed properly for the employee and / or employer.

- **Fiscal Administration.** Several financial accounts for health insurance activity are not being used or have not been established in the Metro financial system. In addition, Benefits personnel do not monitor and reconcile financial accounts associated with health insurance activity. These factors greatly weaken the accuracy and reliability of financial statements.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of Human Resources' health insurance administration.

Corrective Action Plan

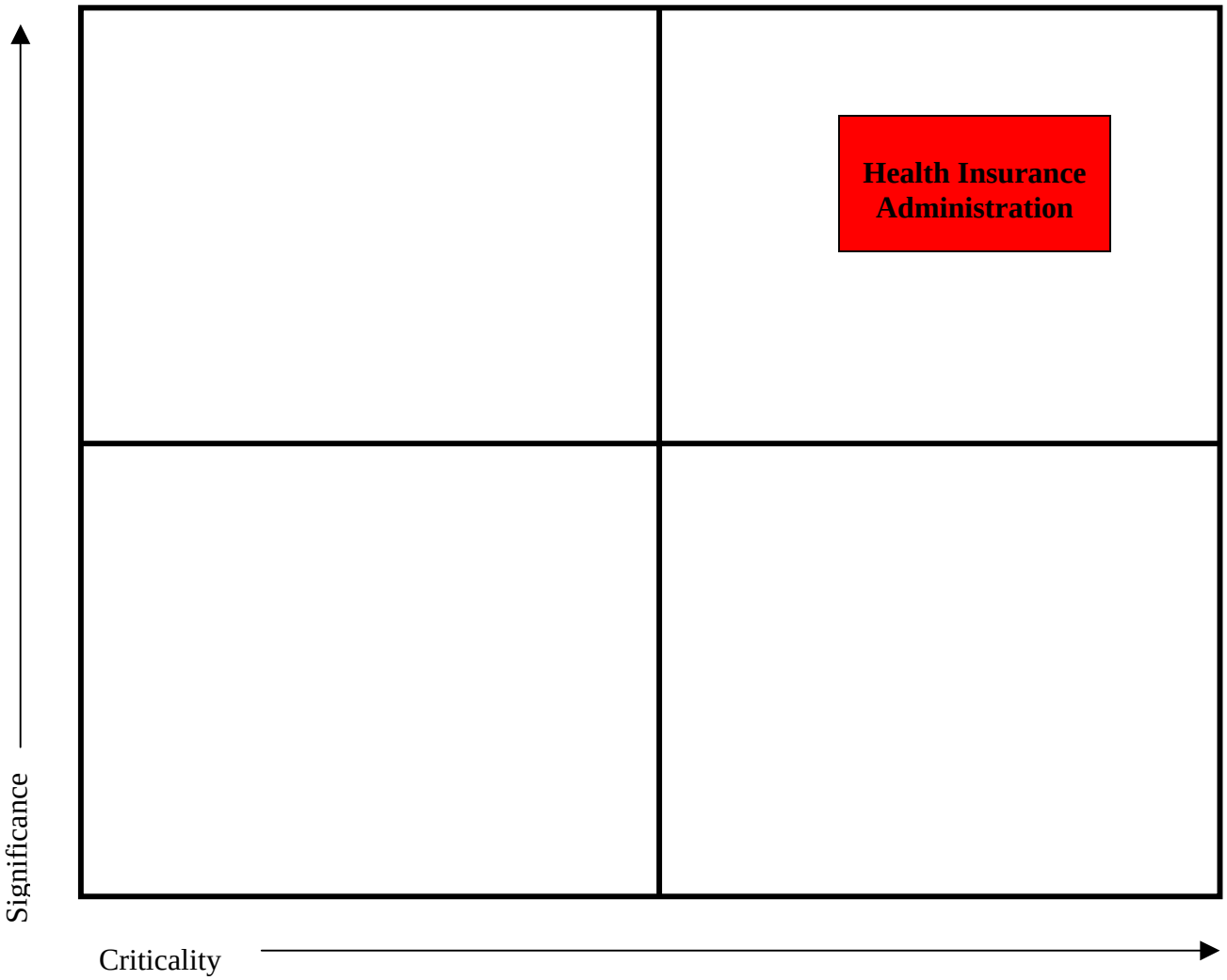
Representatives from the Human Resources department have reviewed the results and are committed to addressing the issues noted. Human Resources should be commended for their effort of establishing an internal task force to assist with determining necessary corrective actions. The corrective action plans are included in this report in the Observations and Recommendations section. We will continue to assist Human Resources to ensure the actions taken are effective to address the issues noted.

Sincerely,

Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of Cabinet for Finance and Administration
Director of Human Resources

Internal Control Rating



Legend

Criteria	**Satisfactory**	**Weak**	**Inadequate**
Issues	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

The Benefits Division of Human Resources processes health insurance claims administered by Third Party Administrators (TPAs). There are two TPAs for health care and one for prescriptions. Louisville-Jefferson County Metro Government implemented a self-insured health insurance plan effective January 1, 2004, and began using prescription services as of January 1, 2005.

Benefits personnel are responsible for managing the payment of the health insurance claims and administrative fees as well as the enrollment and termination of health care benefits for eligible Metro Government employees, Metro affiliates, former employees (COBRA members), and eligible dependents. In exchange for administrative fees, the TPAs provide claims management services for Metro health insurance members. Medical and prescription claims are sent directly to the applicable TPA, payment is administered on behalf of the Metro Government, and Metro is invoiced for the full amount of the claims paid by each TPA. The administrative fees paid to the health care TPAs consist of retention, stop loss, and mental health services.

During fiscal year 2005, Metro Government spent approximately $35 million on medical claims, administrative fees, and prescription claims. Approximately $29 million was withheld from Metro Government departments and $5.9 was withheld from employees for health insurance premiums.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of the Metro Human Resources Benefits division health insurance administration. However, an audit report was issued in March of 1998 on the former City of Louisville Employee Relations – Benefits Division including health insurance and COBRA benefits. Some similarities were noted such as lack of documented policies and procedures for health insurance benefits processing, but significant prior audit issues did not reoccur in this review.

III. Statement of Auditing Standards

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

A draft report was issued in November 2005. Several discussions were held with Human Resources' management during December 2005. A formal exit conference was held at the Department of Human Resources' administrative office on January 5, 2006. Attending were Bill Hornig, Greg Pike, and Lynne Fleming representing Human Resources; Mike Norman representing Internal Audit. Final audit results were discussed.

The views of Human Resources' officials are included as corrective action plans in the Observations and Recommendations section of the report. Human Resources should be commended for establishing an internal task force to assist in determining what corrective actions are needed. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Scope

The Department of Human Resources procedures for administering health insurance benefits were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This includes the processing, recording, and monitoring of activity. Applicable Benefits division personnel were interviewed in order to gain a thorough understanding of the various processes. The adequacy of funding for health benefits was not an objective of this review.

A sample of program activity was judgmentally selected from Metro payroll system (PeopleSoft) reports, benefits files and related health insurance records, external records such as invoices, and claims and membership reports. Samples were chosen throughout fiscal year 2005 (July 1, 2004 to June 30, 2005). The review consisted of examining health insurance benefit enrollment and termination procedures, related payroll adjustments, optional insurance for terminated employees (COBRA), and payments to Third Party Administrators (TPA). Analytical reviews of Metro membership records, TPA claim and membership reports, and invoicing trends were also performed. The results are as follows.

Observations

There were several issues noted in the administration of health insurance activity. As a result, the internal control structure is inadequate. The observations are as follows:

#1 Health Insurance Administration

- A. Member Tracking
- B. Support Documentation
- C. Member Eligibility

#2 Health Insurance Processing

- A. Claims Processing
- B. Administrative Fees
- C. General Adjustments

#3 Fiscal Administration

Details of these begin on the following page.

#1 – Health Insurance Administration

Issues were noted with the general administration of health insurance activity. As a result, the internal control structure is inadequate and its effectiveness impaired. Specifics include the following.

A. Member Tracking

Regular full-time employees or non-union part-time employees who work more than 25 hours per week are eligible for medical coverage. Spouses and legally dependent children are also eligible. Members participating in Metro health insurance plans are not adequately tracked. This increases the risk that Metro Government may be paying administrative fees and claims for unallowable members.

- There is not a "like identifier" (i.e. member identification number) used by Metro Government and third party administrators (TPA). Each TPA uses a different identification numbering system to track members. This makes it virtually impossible to compare TPA members to Metro employee and affiliate members to ensure appropriateness.
  - An attempt was made to compare the health insurance TPA member lists to Metro employees and affiliates based on identification numbers provided. This required some editing of TPA fields. Though there were numerous discrepancies found, they could not be verified as legitimate due to the assumptions and edits made with regards to TPA files. The analysis also would not account for formatting and typing errors in the TPA files (e.g. "0"s being dropped from the beginning of an identification number).
  - A comparison of the prescription services TPA member list to Metro employee and affiliate listings could not be performed since the TPA does not use a member identification number comparable to Metro Government.

- A review of health insurance TPA member lists indicated there could be possible duplicate members noted. However, the review was hindered in that limited information was noted on the TPA lists.
  - One TPA member list was reviewed based on the first and last names of members (birth dates were not provided). Though numerous duplicates were found, all cases could be legitimate members in that a child and parent could have the same names.
  - Another TPA member list was reviewed based on member identification number, last name, and birth date. The majority of the duplicates found were dependent children with the same birth date, which could be legitimate in the case of twins. Other duplicates found included the same birth dates for an employee and spouse. However, there were a few cases found where member birth dates were identical and the first names appeared very similar, indicating possible duplicates.

- Benefits does not maintain a comprehensive list of dependents covered by Metro health insurance plans, to include spouses and legally dependent children of Metro Government employees, affiliate groups, and former employees (COBRA members). Though TPAs maintain member lists, these have not been requested and were not readily available via Benefits personnel. *It should be noted that Benefits personnel are working with the Metro Department of Technology to determine the feasibility of recording and tracking dependents in the Metro payroll and human resource system.*

- The tracking of COBRA, affiliate, and leave of absence members, as well as payment information, is inefficient in that it is maintained in numerous worksheets. This requires a great deal of manual effort and increases the risk of human error since numbers have to be retrieved and replicated into one spreadsheet for billing and reporting purposes.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ There should be a uniform identification numbering system administered by the Metro Government and utilized by all third parties to track health insurance members and their dependents. This would allow for comparisons and analyses to be performed on members to ensure appropriateness (i.e. member is a Metro employee / affiliate, no duplicate members, and such).

- ✓ Benefits should continue with their efforts to determine the feasibility of tracking dependents in the Metro payroll and human resource system. Additionally, it may be beneficial if the system could track non-employees as well (i.e. COBRA participants, affiliates). This would allow for a comprehensive tracking system to record and maintain health insurance data.

- ✓ If it is determined that the Metro system cannot track non-employees, Benefits should consider a less cumbersome tracking mechanism than the numerous spreadsheets currently used to track affiliates and COBRA participants. It may be possible that a single database could be developed and maintained to track these members.

- ✓ Third party providers should provide Benefits personnel with periodic listings of Metro subscribers, to include employees, affiliates, and dependents. The lists should note enough information to allow for proper reconciliations (i.e. member names, identification numbers, birth dates).

- ✓ A major component of any reporting system is proper reconciliation and monitoring. Benefits personnel should review third party member lists on a regular basis for appropriateness, completeness, and adherence to requirements. At a minimum, a sample of member participants should be reviewed for validity. The member lists

should also be scanned for possible duplicates or reasonableness using computer assisted techniques (i.e. Microsoft Access, Excel).

✓ Any discrepancies or irregularities found during a review of member lists should be thoroughly researched and the results documented.

B. Support Documentation

There were several cases where support documentation did not exist or did not adequately address all areas of health insurance administration.

- There are no documented policies and procedures to guide Benefits personnel in the day-to-day administration and management of the health insurance activity. The lack of documented procedures increases the risk of non-compliance with intended procedures, as well as non-compliance with policy. This can also lead to inconsistencies and inefficiencies with health insurance processing.

- Some Third Party Administrator (TPA) agreements were not finalized or could not be located at the time of this review.
  - ➢ In one case, the TPA agreement was in a "draft" phase though the TPA had been providing prescription services for Metro health insurance members since January 1, 2005. Metro Government expended approximately $3.6 million to the TPA for prescription claims from January 1, 2005 to June 30, 2005.
  - ➢ In another case, the sections of the TPA agreement for stop loss and mental health coverage could not be located.

- Metro Government allows certain groups to participate as "affiliates" in Metro health insurance plans. Though an additional 20% fee is included in the premiums quoted to affiliate members, the fee is not addressed in affiliate agreements.
  - ➢ One affiliate group is not charged the additional 20% administrative fee. Some of the group's members are paid through the Metro payroll system and receive the same rates as Metro employees. Therefore, the entire group is charged the same rates as Metro employees. The exemption from the additional fees is not addressed in the affiliate agreement.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

✓ An internal policies and procedures manual should be developed to include all pertinent information related to health insurance processing. The manual should include sufficient detail for Benefits staff to administer job duties, copies of forms

used, and the policies followed in the processing of activity. The manual should be disseminated to all applicable personnel and should be used as a training manual for new staff and individuals serving in backups roles. Training of key personnel will help ensure consistent adherence to requirements.

✓ Third Party Administrator service agreements should be on file and readily available for reference purposes to all Human Resources staff associated with health insurance benefits. The agreements should be complete to include documentation of responsibilities of both the TPA and the Metro Government, the services provided and associated fees, invoicing and payment policies, and signatures of authorization from each party. Agreements serve as a basis for the terms all parties will follow. They should be finalized prior to any services being provided.

✓ Agreements with affiliate parties should thoroughly document the benefits affiliates will receive and any associated fees. The agreements should be signed by all parties and kept on file for reference as needed. Any exemptions or waivers of fees should be properly documented.

C. Dependent Eligibility

- Dependent eligibility is not verified during open enrollment or new hire orientation. Eligibility is only verified when an employee has a status change and the reason for the status change requires it (i.e. birth of a child, marriage). Dependency is not verified during open enrollment due to the high volume of activity, and because there is no law or internal policy that requires it. Using an honor system when enrolling dependents in health insurance plans greatly increases the risk that Metro is covering non-eligible dependents.
  - Documentation verifying dependent eligibility was not included in employee benefits files for 28 of the 38 dependents reviewed.
  - There were numerous cases where one TPA member list noted dependent children over the age of 25 based on birth dates recorded. Dependent children are defined in agreements as age 25 or younger.
  - Dependent eligibility based on age could not be reviewed for another TPA member list because birth dates were not provided.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

✓ Benefits should consider developing a policy that requires employees to provide proof of dependent eligibility anytime a dependent is added to insurance coverage. Though this may be cumbersome the first time it is implemented for all of Metro

Government, the volume of activity should greatly decrease after implementation since it would only pertain to future add-ons (i.e. new hires, births / adoptions, and such). Ideally, once proof has been provided for a dependent, it should remain on record and not have to be provided again.

- ✓ Benefits should review documents provided to verify each dependent is indeed eligible for coverage. Cases of ineligibility should be immediately communicated to an employee.

- ✓ All support documents of eligibility should be maintained in an employee benefits file. This should include any documents indicating an exception to the standard policies (i.e. coverage for a dependent child *over* the age of 25).

Human Resources Corrective Action Plan

The Department of Human Resources will perform the following to help improve the administration of health insurance benefits.

1. For the past year, Louisville Metro Government (LMG) has been working with TPAs to establish procedures that will allow for the electronic exchange of enrollment/eligibility information. During this time the HR and IT Departments have identified LMG as the *administrator of the database* and as such LMG will drive the rules associated with maintaining and administering this benefits database.

   In this role as the *administrator of the database*, LMG shall define the information needed to effectively and efficiently administer and monitor its benefits programs. Vendors will be required to comply with these standards by providing the defined information in the format requested.

   In order that eligibility issues may be tracked across vendors:

   a) The employee social security number will be established as the 'common identifier' with all vendors when exchanging information.

   Projected completion: within 90 days.

   b) For privacy reasons, TPAs will be directed to utilize alias IDs on member identification cards.

   Projected completion: 01/01/2007 – new ID cards issued for the new plan year.

2. The use of technology is essential if proper reconciliation and monitoring processes are to be put in place. The Benefits Unit will work with the IT Department to construct the type of information/reports and mechanisms needed to facilitate at minimum a sample audit of member lists to verify eligibility and to identify duplication. When discrepancies are identified they will be researched with results documented. The IT and Benefits Unit will work with vendors to

standardize the formats in which information and invoices are provided to LMG. Greater conformity to the needs of LMG will be required.

Projected completion: immediate implementation with ongoing administration.

3. The Benefits Unit will continue to load and update dependent information into PeopleSoft. Dependent information forms will be updated to insure that correct names, social security numbers and dates of birth are received. Effective immediately, all new hires will be required to supply this information. A positive open enrollment for Plan Year 2007 may be necessary to update this information for all existing employees.

   The PeopleSoft system currently has the ability to track 'non-employees' and since January 1, 2006 has been used to track affiliates and COBRA recipients. Tracking is based upon social security numbers; pertinent dependent information is captured. HR will continue to work with IT to develop mechanisms enabling LMG to extract information for monitoring purposes.

   Projected completion: immediate implementation with ongoing administration.

4. At the current time the Benefits Unit administers the COBRA program for LMG. Current methods of administration are unwieldy. The use of the LEAP system will be evaluated to assist in structuring the administration of COBRA benefits. If this is determined to be unworkable, the outside administration of COBRA by a TPA may be considered.

   Projected completion: within 90 days.

5. The Benefits & Compensation Manager will be responsible for the development and administration of an internal policies and procedures manual.

   Projected completion: within 120 days.

6. The Benefits & Compensation Manager, working in concert with LMG's identified Insurance Broker, will be responsible for insuring that all service agreements are current, signed, on file and that these contracts and/or agreements contain language that supports the information and process needs of LMG.

   Service agreements and plan documents will be available and readily accessible to Human Resources staff. These documents may be found in the Benefits & Compensation Manager's office.

   Projected completion: immediate implementation with ongoing administration.

7. LMG currently has an active task force reviewing in-force and expired Fiscal Agent Agreements with affiliate parties. This group is identifying the specific services provided to these affiliate parties as well as costs incurred/charged for the provision of these services (including benefits administration). It is anticipated that this task force will be concluding their work in the next ninety-days. The Assistant Director of Human Resources is a member of this task force.

The Benefits Unit will utilize the results of the work of this task force to accomplish this recommendation.

Projected completion: within 90 days of the receipt of this task force's report and recommendations.

8. Benefits Unit staff utilizes the definitions of eligible dependents pursuant to plan documents.

   Limited staff resources within the Benefits Unit prohibit a dependent eligibility audit being done in-house. The Human Resources Department will explore the option of contracting with an outside firm to conduct such an audit. Additionally, based on the outcome of this audit and recommendations from the outside firm, a schedule will be determined regarding the frequency in which such audits should occur and steps that LMG should put into place to monitor dependent eligibility between such audits.

   The Benefits Unit currently maintains a 'Benefits File' on all active employees. This file contains all hardcopy information pertaining to their benefits, enrollment, etc.

   Projected completion: budget dependent – FY 2007.

#2 - Health Insurance Processing

Issues were noted with the processing of health insurance transactions. As a result, the internal control structure is inadequate and its effectiveness impaired. Specifics include the following.

A. Claims Processing

- Benefits personnel pay the total amount of claims as indicated on the invoices submitted by the TPAs without reviewing the detailed support documentation submitted with the invoices. This increases the risk that Metro may be paying for inappropriate charges.
  - In the case of one TPA, financial reports (summary and bank activity) for claims activity are also submitted to Benefits. Though the files are saved in an electronic version, Benefits personnel do not review them.

- The invoice received from one TPA includes detail of prescription claims by plan type, but does not include a detailed list of prescription claims paid per member for the period.

- Claims files submitted by TPAs were reviewed to identify any irregularities, such as claims on behalf of non-Metro members and duplicate claims. There were some irregularities noted with the claims files reviewed.
  - There were numerous claims for TPA members whose identification numbers did not match a Metro employee or affiliate. However, as previously stated, the "unmatches" found could not be verified as legitimate discrepancies due to the absence of a member "like identifier" (i.e. member identification number) between the TPAs and Metro Government. In addition, discrepancies could be the result of claims for employees or affiliates that are no longer carried by Metro, but were previous members. Therefore, the claims would be appropriate if they were incurred while the member was an employee or affiliate.
  - One TPA's claims file appeared to note a duplicate claim. The duplicate claim was based on a match of the member identification number, last name, first name, incurred date, and reimbursement amount.
  - Another TPA's claims file only noted total claims per member for the applicable month. Individual claims were not presented; therefore, an analysis of duplicate claims could not be performed.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Benefits personnel should require each TPA to provide detailed information of the claims invoiced each period. The information should be presented in a format that facilitates a sort or manipulation of data for review by Metro personnel (e.g. Microsoft Excel, Access, etc.).

- ✓ It is imperative that Benefits administrative staff reviews the claims invoice information on a routine basis, especially considering the cost of the claims. Though it is not reasonable to expect every claim be reviewed, a sample of claims should be reviewed for appropriateness (i.e. valid Metro member).

- ✓ Periodically, entire claims reports should be compared to member listings to ensure only valid Metro members are being recorded. It would also be beneficial to search the reports for possible duplicates.

- ✓ Any discrepancies or irregularities found should be thoroughly researched and the results should be documented.

- ✓ Benefits should contact the Metro Department of Technology for software training and assistance as needed.

- ✓ Human Resources should consider the possibility of contracting a cost recovery service provider. In essence, these consultants analyze claims paid to the TPAs and identify issues that can lead to the recovery of overpaid claims.

B. Administrative Fees

Each month, the health insurance TPAs invoice the Metro Government for administrative fees based on each member that participates in their health care plans. The administrative fees consist of retention, stop loss, and mental health services. There were some concerns noted with the billing process for administrative fees. Specifics include the following.

- Metro health insurance reports used in the calculation of administrative fees owed to TPAs may not be providing the most beneficial information. For example, they do not provide a count of employees, and they do not note applicable administrative fees.
  - ➢ In one case, the report had an error with regards to plan coverage types. Two different plan coverage types were accounted for via one code. This makes the TPA's reconciliation very cumbersome.

- One to two days are spent manually reconciling the subscribers and plan types for one TPA administrative fee invoice to Metro member records. This is an inefficient use of Benefits' resources considering administrative fees are considerably less than claims, yet no time is spent monitoring the claims billing.

- For one TPA, it appears Benefits was not reconciling the administrative fees with regards to the mental health portion. The mental health fees noted on invoices were significantly higher than other fees, though the individual subscriber fees are less. Upon inquiry of the TPA, it was discovered that the fee was charged for every member, not just the subscriber. Benefits personnel were not aware of the invoicing policy because it is not stated in the administrative services agreement with the TPA. Also, a detailed billing of member charges for this particular fee was not being provided with the invoice.

- One TPA does not inform Benefits personnel of discrepancies with regards to administrative fee payments in a timely manner (i.e. within 30 days of receipt of payment). This makes researching and reconciling discrepancies very cumbersome.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Benefits should contact the Metro Department of Technology regarding the usefulness of reports used in the calculation of administrative fees. It may be possible to add more information or calculations to the report to make it more beneficial. Any errors with codes that represent a specific plan type should be corrected immediately so that accurate information is being provided.

- ✓ Though monitoring and reconciliation of administrative fee activity is important, it should not require a great deal of manual effort. Ideally, administrative fee reports could be more useful so that simple analyses and reconciliations could be performed. This would allow for Benefits personnel to focus their resources on more significant items (i.e. claims reconciliation).

- ✓ Administrative service agreements should address all applicable administrative fees, to include exact fee amounts and how they are charged. Benefits should be familiar with all administrative fees and reconcile amounts requested prior to payment.

- ✓ Any discrepancies with regards to administrative fee amounts should be communicated to the appropriate party and reconciled in a timely manner (i.e. within 30 days of receipt of payment or receipt of invoice).

C. General Adjustments

Some problems were noted with the processing of general health insurance activity for terminated employees, new hires, and changes to members' status. Specifics include the following.

- There was one case where a Metro department agreed to cover the COBRA premiums for three years on behalf of a dependent. However, at the time of this review, Benefits had not charged the department for any of the premiums paid. The department should have been charged $330.42 per month since April 2005.

- In one of five cases, an adjustment was not made to charge a department for premiums due for a new employee. The department should have been charged an additional $288.81 for missed deductions.

- In five of five cases reviewed, adjustments were not made to credit a department for premiums charged for an employee that terminated. Refunds due ranged from $240.49 to $727.21.

- In one case, an adjustment was appropriately processed for an employee's increase in premiums due, however, the change in the level of coverage was not recorded in Metro's payroll / human resource system. This resulted in the employee being undercharged $1,073.05 for insurance premiums. The premium charge to the department was also undercharged by $2,864.16, since neither the adjustment nor the system change was made. *Upon discovery of the premium errors, Benefits personnel immediately recorded the change in the employee's level of coverage in the payroll / human resource system. In addition, adjustment forms were completed to recoup the funds from both the employee, as well as the department.*

- There was one case where support documentation could not be located in an employee's benefit file to indicate a change in medical benefits.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Care should be taken by Benefits personnel to ensure all appropriate adjustments with regards to health insurance premiums are properly processed. This includes adjusting entries to a department, as well as an employee.

- ✓ Adjusting entries should be made in a timely manner so that financial reports are indicative of true activity and employee payment statuses are current.

- ✓ Any changes to employee medical benefits should be thoroughly documented and maintained in an employee benefits file.

Human Resources Corrective Action Plan

The Department of Human Resources will perform the following to help improve the processing of health insurance benefits.

1. As outlined in previous responses, once Louisville Metro Government (LMG) establishes standard reporting protocols for vendors to adhere to, common identifiers for employees and electronic processes to assist in data monitoring, benefits staff will be able to audit manageable samples of claims invoices and member listings.

   To assist LMG in the monitoring of the claims process, TPAs will conform to standards established by LMG regarding the manner in which claims and invoices are submitted for payment. Currently, LMG honors invoices that are at a later time found to be incorrect. A process will be implemented that allows for verification of the invoice and payment of the correct amount.

   As soon as is feasible, the finance and accounting staff of the TPAs will meet with LMG's HR, Finance, and IT staff to better integrate the utilization and dissemination of information and to identify and implement processes that will increase the accountability and streamline the monitoring and auditing of this financial information.

   Projected completion: immediate implementation with completion within 120 days.

2. Mechanisms will be established to automate the review of member lists. Discrepancies will be researched with results documented.

   Projected completion: immediate implementation with completion within 90 days.

3. The IT and HR Departments have previously identified the need for PeopleSoft system benefits training for staff which if received would strengthen the administration of benefits. Both training and software needs have been identified but have been delayed due to budgetary constraints. HR will continue to include these requests in upcoming budget preparations.

   Projected completion: budget dependent – Fiscal Year 2007.

4. The Human Resources Department will explore the option of contracting with an outside firm to conduct a claims audit. Additionally, based on the outcome of this audit and recommendations from the outside firm, a schedule will be determined regarding the frequency in which such audits should occur and steps that LMG should put into place to monitor claims between such audits.

   Projected completion: budget dependent – Fiscal Year 2007.

5. The successful monitoring and reconciliation of administrative fees (the per employee per month charge) will be accomplished through the successful sharing and receiving of electronic data between LMG and the TPAs. LMG will define

the information it needs to adequately reconcile invoices for administrative fees and then will direct its TPAs to conform to these needs. Administrative fees will be broken out of all claims invoices. As *administrator of the database,* LMG's data will be driving the billing process – not the TPAs.

Projected completion: immediate implementation with completion within 120 days.

6. Current administrative service agreements will be reviewed to insure all fees are identified and the manner in which they are charged is defined.

   Projected completion: immediate implementation with completion within 90 days.

7. The Benefits Unit's policies and procedures manual will outline the manner in which Benefits Unit staff convey discrepancies or contest charges on invoices.

   Projected completion: within 120 days.

8. Benefits Unit staff will receive training and support from the Finance Department to insure a high level of understanding and accuracy when interfacing with the LMG financial system. Policies and procedures will be developed regarding tracking and refunding of insurance premiums. A process is under consideration for automatically refunding the employer contribution of premiums via the payroll system.

   Appropriate documentation needs will be addressed in the policies and procedures developed by Benefits Unit staff.

   Projected completion: immediate implementation with completion within 120 days.

#3 – Fiscal Administration

Issues were noted with the fiscal administration of health insurance activity. As a result, the internal control structure is inadequate and its effectiveness impaired. Specifics include the following.

- Health insurance costs are not accurately reflected on the Metro financial statements. Though total costs are appropriate, individual plan costs are distorted. This greatly weakens the reliability and usefulness of financial records.
  - Several financial accounts for health insurance activity are not being used or have not been established in the Metro financial system. This results in activity being inappropriately charged, thus distorting financial records.
  - There were several cases where health insurance activity accounts had been in use, but activity was inappropriately posted.

- The journal vouchers used to post revenue for health insurance premiums withheld have noted two incorrect account code combinations for most of the fiscal year.
  - In one case, the account combination did not exist. The transactions rejected every time they were loaded into the Metro financial system and appropriate coding had to be input.
  - In the other case, the incorrect account combination did exist and allowed revenue to post.

  As of July 2005, Finance disabled the inappropriate account so it could no longer be used to record activity. Correcting adjustments were made to move the revenue balance to the appropriate financial account. In addition, the electronic journal entry used by Benefits to post this activity was corrected to reflect proper accounts.

- Human Resources personnel do not monitor and reconcile the financial accounts associated with health insurance activity. Transactions may not be processed as intended and inappropriate activity could go undetected. This weakens the accuracy and reliability of financial statements.

- There were a few cases where payments made to TPAs were not properly supported.
  - In two cases, only the first page of a multi-page invoice was attached to the payment request. Though it noted summary totals and an invoice grand total, detail pages were not provided to support the amount paid.
  - In another case, the invoice total for administrative fees was $3,000 less than the invoice detail by plan type. The payment was made for the invoice total, which resulted in one plan type being reduced by the $3,000 difference. There were no notations made on the invoice to indicate whether this was appropriate.

- Monthly payments to one TPA are mailed by Benefits staff instead of the Accounts Payable division of Finance. This does not provide for adequate segregation of duties

and is unnecessary since no additional backup documentation is sent along with the payment.

Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Benefits staff responsible for the management of health insurance financial activity should contact Finance personnel to set up the additional accounts required to accurately record health insurance activity.

- ✓ Care should be taken to ensure health insurance activity is coded to the proper financial accounts. The appropriate financial accounts should be used to record program activity in order to accurately document the fiscal activity and to facilitate the planning of future budgetary needs.

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews the information on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of financial system reports. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. This helps ensure the transactions were processed as intended and properly recorded. This also helps ensure the accuracy of and strengthen the reliability of the financial statements. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.

- ✓ Human Resources staff should contact financial system administrators for assistance in obtaining reports to help monitor financial information.

- ✓ Care should be taken by Benefits personnel to ensure that payment support documentation is complete and accurate. Detailed invoices should be submitted with each payment request and invoices should be recalculated to ensure accuracy. The importance of complete and accurate documentation should be emphasized to all personnel associated with the health insurance payments.

- ✓ To ensure proper segregation of duties, the Benefits division should allow the Finance department to mail vendor payments, especially since support documentation is not being sent with the payments.

Human Resources Corrective Action Plan

The Department of Human Resources will perform the following to help improve the fiscal administration of health insurance benefits.

1. The following steps will be implemented to insure that a structure is in place that appropriately interfaces and integrates into LMG's financial system. a) The Benefits Unit will identify and define the specific accounts it needs to track. b) Appropriate account codes will be assigned to these areas. c) Policies and procedures will be developed by the Human Resources Department to support the fiscal administration of the health insurance program. d) With the assistance of the Finance Department, IT and TPA financial staff, an effective and accountable reconciliation process will be defined and implemented.

   Human Resources staff from the Benefits Unit will be identified for training in the use of the LEAP system.

   In order that the above steps are thoroughly addressed, the Finance Department will coordinate a sub-committee to address issues related to the fiscal administration of the health insurance program.

   Projected completion: immediate implementation of some steps contained in recommendation is realistic; dependent upon the availability of Benefits Unit staff resources and/or creation of new resources/functions – budget dependent – Fiscal Year 2007.